



Business tax tip #7

Are Repairs to Personal Property Taxable?

Are charges for repairs to personal property subject to sales and use tax?

No, lump-sum charges to repair personal property are exempt. Charges for parts installed on repaired items are taxable if repair labor and parts charges are separately stated. Parts sold over the counter are taxed.

Is this true for repairs to automobiles as well?

Yes. The sales and use tax applies to automobile repairs the same way it applies to repairs to other kinds of property such as appliances, home electronics and office equipment.

Are all labor charges exempt?

No. The sales and use tax applies to fabrication labor charges.

What is the difference between repair and fabrication labor?

The restoration of used property to its original condition or usefulness is repair, which is not taxable. The creation or completion of a new or different item is fabrication, which is taxable. For more information, please see [Business Tax Tip #12– Fabrication Labor is Subject to Tax](#).

How are core charges or trade-ins handled?

If you accept trade-ins or require the exchange of a used item or core when making sales, you must charge tax on both the price paid and the value of the trade-in or exchange. For example, if you sell a starter for \$54 and collect \$10 as security for a trade-in of an old starter, you must collect tax on \$64, the price of the new starter plus the value of the anticipated trade in. When the customer turns in the old starter, you do not refund the tax on the \$10 that you refund to the customer. The tax does not apply to core charges made in connection with sales of these re-manufactured truck parts and their components: air brake systems, engines, rear axle carriers and transmissions.

What about free installation?

If you sell a part, such as a muffler, and offer free installation, you must collect the tax on the full price of the muffler. The transaction is treated as if separate charges for labor and materials are being made and the labor charge is zero.

How are miscellaneous and shop materials taxed?

You must collect tax on charges for "miscellaneous materials" such as gaskets, which are incorporated into repaired property if you state the charge for these miscellaneous materials separately. You do not collect tax on charges for "shop materials" such as sandpaper, drill bits, soap, rags and masking tape, used in making repairs but not incorporated in the repaired property. However, if a miscellaneous or shop materials charge includes both materials consumed in making repairs and those which are incorporated in the repaired item, the entire amount of the charge is taxable.

What special rules apply to maintenance contracts?

The tax does not apply to the charge for a maintenance contract unless it must be purchased as a condition of the sale or lease of the property. If you are performing repairs under an optional maintenance contract, you must pay the tax on materials passing to customers unless a separate additional charge is made for them. If you are making repairs under a mandatory maintenance contract, or warranty included in the original selling price, you may claim the resale exclusion on purchases of materials passing to customers. For more information, see [Business Tax Tip #4: - If You Make Purchases for Resale](#).

What about purchases?

If you repair personal property, you do not have to pay the tax on purchases of:

- Parts you will resell over-the-counter;
- Parts installed in customer property under mandatory maintenance contracts; and
- Parts supplies you will install on property you are repairing and charge for separately.

You do have to pay the tax on:

- Purchases of parts and supplies used in lump-sum billing;
- Items you use yourself such as tools and stationery; and
- Materials and supplies consumed in repairing property but which do not become a part of the property, such as soaps, rags, masking tape and sandpaper.

Do I have to pay tax on parts if I am making lump-sum repairs for a governmental or another tax exempt organization?

Yes. The exemption of these organizations does not extend to the purchases of parts for lump-sum repairs.

Can I avoid the tax on my purchases of consumables by including their cost in my parts charge and collecting tax from my customers?

No. No matter how you decide to bill your customers, you are required to pay tax on your purchases of consumables.

How do I claim exemption on materials I will resell?

When you purchase parts and supplies for resale over-the-counter or which you will install and bill for separately, you may claim the resale exclusion by giving your supplier a resale certificate bearing your Maryland sales and use tax registration number. For additional information, see [Business Tax Tip #4: - If You Make Purchases for Resale](#).

If I give my parts supplier a resale certificate, isn't everything I buy from that supplier exempt?

No. Suppliers must exercise reasonable judgment in accepting or acting on resale certificates. They must charge sales tax on sales to repairers of goods which are obviously not for resale, including tools, stationery, soap, masking tape and sandpaper, even if repairers have provided a resale certificate. If suppliers fail to charge sales tax where applicable, they can be held responsible for the uncollected tax.

Are repairs to real property treated any differently from repairs to personal property?

Yes. Charges for repair of realty such as a building, including any separately stated charge for materials installed, are exempt. Contractors making repairs of realty must pay the tax on all purchases of materials used. The only exception is that contractors for private nonprofit charitable, educational or religious organizations may use the organization's Maryland sales and use tax exemption certificate to avoid the tax on purchases of materials which will be installed in real property.